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| Province of the  EASTERN CAPE  EDUCATION  **DIRECTORATE SENIOR CURRICULUM MANAGEMENT (SEN-FET)**  **HOME SCHOOLING SELF-STUDY**  **MARKING GUIDELINE**   |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **SUBJECT** | | ACCOUNTING | **GRADE** | 11 | **DATE** |  | | | | | **TOPIC** | Analysis and Interpretation of Financial statements: Consolidation | | | | | **Term** | 2 | **Week** | 8 | |

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| **WORKSHEET 1** | | | | | |  |
| **GRADE** | 11 | **TERM** | 2 | **WEEK** | 8 | |

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| **ACTIVITY 1** | |  |  |  |  |
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| 1.1.1 | D | |  |  |  |
| 1.1.2 | E | |  |  |  |
| 1.1.3 | A | |  |  |  |
| 1.1.4 | C | |  |  |  |
| 1.1.5 | B | |  |  |  |

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| |  |  | | --- | --- | | **1.2.1** | **Calculate the following, to ONE decimal place, for the year ending 29 February 2020:** | |
| * **Current Ratio**   443 520 : 201 600  = 2.2 : 1 |
| * **Acid Test Ratio**   (443 520 – 261 000) : 201 600  = 182 520 : 201 600  = 0.9 : 1 |
| * **Debtors’ Average Collection Period (in days).**   ½ (66 600 + 54 000) x 365  (1 485 000 x 40%) 1  = 60 300 x 365  594 000 1  = 37 days |
| * **Percentage return on Average Equity for 2020**   Equity for 2020 & 2019 = 900 000 + 360 000 + 81 000 + 45 000 + 72 000 – 18 000  = 1 440 000  (1 485 000 x 11.5%) x 100  ½ (1 440 000) 1  = 170 775 x 100  720 000 1  = 23.7% |
| * **Debt Equity ratio**   412 200 : (900 000 + 81 000 + 72 000)  = 412 200 : 1 053 000  = 0.4 : 1 |

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| |  |  | | --- | --- | | **1.2.2** | **Comment on the liquidity of this businesses. Quote relevant financial indicators to justify your answer.** | |
| * Current ratio has decreased from 2.6 : 1 in 2019 to 2.2 : 1 in 2020 * Acid test ratio had improved from 0.7 : 1 in 2019 to 0.9 : 1 in 2020 * Debtors average collection period has improved from 42 days in 2019 to 37 days in 2020 |

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| |  |  | | --- | --- | | **1.2.3** | **Should the partners be satisfied with the percentage return earned by Nicks Traders in 2020. Give TWO reasons for your answer.** | |
| Yes   * The return earned by the business has increased from 19.3% in 2019 to 23.7% in 2020 * This is more than what the owners would get in most alternative investments ( e.g. at the bank) |

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| |  |  | | --- | --- | | **1.2.4** | **If this business wanted to expand, should they increase their long-term liabilities? Give a reason for your answer.** | |
| Yes   * The debt equity ratio of 0.4: 1 is lower than last year’s 0.8 : 1 * Risk is therefore low to moderate * The business is also positively geared as the percentage return of 23.7% is greater than the interest rate on the long-term liabilities of 9.5% |

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| **WORKSHEET 2** | | | | | |  |
| **GRADE** | 11 | **TERM** | 2 | **WEEK** | 8 | |

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| **ACTIVITY 2** | | |  | |  | |  | |  |
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| **2.1** | |  | | | |  | |  |  | |
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| 2.1.1 | | risk | | | |  | |  |  | |
| 2.1.2 | | liquid | | | |  | |  |  | |
| 2.1.3 | | solvent | | | |  | |  |  | |
| 2.1.4 | | profitable | | | |  | |  |  | |
| 2.1.5 | | return | | | |  | |  |  | |

**2.2**

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| **2.2.1 Calculate the mark-up achieved by the business.** |
| (2 580 000 – 1 883 210) x 100  1 883 210 1  = 696 790 x 100  1 883 210 1  = 37% |

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| **2.2.2 Is the business controlling its expenses effectively? Quote a figure or Financial indicator to support your answer.** |
| Yes  Operating expenses on sales decreased from 19% to 15.1% |

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| **2.2.3 Calculate the following financial indicators for the year ended 30 September 2019:** |
| * **Current ratio**   439 160 : 187 788  = 2.3 : 1 |
| * **Stock turnover rate**   1 883 210  ½ (202 560 + 197 400)  = 1 883 210  199 980  = 9.4 times |
| * **Debtors collection period**   ½ (81 304 + 64 154) x 365  495 356 1  = 72 729 x 365  495 356 1  = 54 days |
| * **Return on average partners’ equity**   193 636 x 100  ½ (1 090 632 + 968 996) 1  = 193 636 x 100  1 029 814 1  = 18.8% |
| * **Debt equity ratio**   240 000 : 1 090 632  0.2 : 1 |

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| **2.2.4 Comment on the liquidity of the business.**  **Quote THREE financial indicators to support your answer.** |
| * Current ratio increased from 2.2 : 1 to 2.3 : 1 * Acid test ratio increased from 1.1 : 1 to 1.3 : 1 * Stock turnover rate increased from 7.8 times to 9.4 times * Debtors collection period increased from 38 to 54 days * Creditors payment period increased from 38 to 41 days * Liquidity is satisfactory * The business will be able to meet its short-term obligations * The business needs to improve its credit policy by offering more discounts for early payments and charging interest for late payments in order to achieve 30 days collection period. * The business can negotiate a 90 day payment agreement with suppliers. |

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| **2.2.5 Should the partners be satisfied with their return?**  **Quote figures to support your answer.** |
| Yes   * Ben’s return increased by 3 % * Although Thando’s return decreased it is still above alternative investments which are offering between 5% - 9% |

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| **2.2.6 The partners want to increase the loan by an additional R400 000 to make**  **Improvements to the existing buildings. What advice would you offer**  **them?**  **You must make reference to the financial indicators and figures to**  **support your answer.** |
| * To make more use of loans * Debt equity ratio has decreased from 0.3 : 1 to 0.2 : 1 * This indicates that the business is lowly geared, less risky and credit worthy. |

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| **WORKSHEET 3** | | | | | |  |
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| **GRADE** | 11 | **TERM** | 2 | **WEEK** | 8 | |

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| **ACTIVITY 3** | |  |  |  |  |
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| **3.1 Explain the difference between Liquidity and Solvency.** |
| * Liquidity is the ability of the business to settle its short-term debts * Solvency is the ability of the business to pay all its debts in the long-term |
| **3.2 Calculate the following financial indicators for 2019:** |
| * **Acid test ratio**   (107 400 + 45 720) : 54 096  = 153 120 : 54 096  = 2.8 : 1 |
| * **Stock turnover rate**   691 200  ½ (209 856 + 183 120)  = 691 200  196 488  = 3.5 times |
| * **Debt equity ratio**   204 000 : 768 000  0.3 : 1 |
| * **Return earned by the business**   162 000 x 100  ½ (786 000 + 540 000) 1  = 162 000 x 100  663 000 1  = 24.4% |
| **3.3 Refer to the expected mark-up and actual mark-up percentages and answer the following:** |
| * **List TWO reasons why Zenzele Traders did not achieve the expected mark-up of 60%** * Too liberal a policy in granting trade discounts * Too many seasonal sales at low prices * Incorrect pricing * Petty thieving or shoplifting |
| * **The partners are considering increasing the mark-up to 70% on cost. List TWO factors they should consider before implementing this strategy.** * The needs of customers * The purchasing power of customers * Prices charges by competitors * The effect it will have on sales volume |

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| **3.4 Does the business have a liquidity problem?**  **Quote THREE relevant financial indicators with figures, percentages or**  **ratios to support**  **your answer.** |
| No   * Current ratio increased from 1.5 : 1 to 3.1 : 1 * Acid test ratio increased from 0.48 : 1 to 2.8 : 1 * Stock turnover rate increased from 2.9 times to 3.5 times * Debtors collection improved by 3 days |

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| **3.5 One of the partners is of the opinion that the Loan from Sharks Bank should**  **be paid off as quickly as possible. What advice would you offer him?**  **Discuss TWO relevant financial indicators to support your answer.** |
| Do not pay off loan  Debt equity  Although debt equity increased from 0.25 : 1 to 0.3 : 1 the business is lowly geared, credit worthy and less risky.  ROTCE decreased from 39% to 36 % but is higher than the interest on loans of 15%  This indicates that the business is positively geared. |

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| **3.6 Should the partners be satisfied with the performance of the business?**  **Explain and quote a financial indicator to support your answer.** | | | | | | |
| Yes  Although the return has decreased from 28.2% to 24.8% it is still above alternative investments offering 5% - 9% | | | | | | |
| **WORKSHEET 4** | | | | | | |  | |
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| **GRADE** | | 11 | **TERM** | 2 | **WEEK** | 8 | | |

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| **ACTIVITY 4** | |  |  |  |  |
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| **4.1 Calculate the following:** |
| **4.1.1 The total current liabilities**   |  |  | | --- | --- | | Trade debtors | 300 520 | | Cash and cash equivalents | 40 480 | | Trading stock | 194 700 | | **Total** | **535 700** | | Current liabilities ( 535 700 / 2.5) | 214 280 | |  |  | |
| **4.1.2 Percentage return earned by David**  (165 000 + 46 200 + 21 120) x 100  ½ (577 500 + 440 000 + 16 940 – 10 010) 1  = 232 320 x 100  512215 1  = 45.4% |
| **4.1.3 Debt equity ratio**  440 000 : (577 500 + 385 000 – 10 010 + 11 660 )    = 440 000 : 964 150  = 0.5 : 1 |
| **4.1.4 Acid-test ratio**  (300 520 + 40 480) : 214 280  = 341 000 : 214 280  = 1.6 : 1 |

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| **4.2 Comment on the liquidity of the business.**  **Quote TWO financial indicators (with figures) in your answer.** |
| Current ratio : moved from 1,8 : 1 to 2,5 : 1  Acid test ratio : moved from 1,2 : 1 to 1,6 : 1    The business appears to be in a good liquidity position. Both ratios showed an improvement. There is however, stock piling and poor collection from debtors. This could lead to liquidity problems in the future. |

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| **4.3 Do you think that David is satisfied with his return on investment? Explain.**  **Quote TWO relevant financial indicators (with figures) to support your answer,** |
| Return earned by David : decreased from 48% to 45%  Return earned by Moses : improved from 57% to 61%  ROTCE: improved from 37% to 43%    Although David may be getting a return above the return earned by the business, he may be disappointed with the decrease in his return compared to the increase in Moses’s return.    Other factors: He has contributed more capital but he also has debit balance on his current account. |

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| **4.4 The partners want to expand the existing business and are considering increasing the loan. What advice would you offer them? Support your answer by making reference to TWO financial indicators (with figures).** |
| The debt/equity ratio remained constant at 0,5 : 1  ROTCE: improved from 37% to 43%    The business can afford to increase the loan as it is lowly geared. It is also receiving a good return on capital employed (higher than Interest rate on loans). There is positive gearing. |

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| **WORKSHEET 5** | | | | | |  |
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| **GRADE** | 11 | **TERM** | 2 | **WEEK** | 8 | |

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| **CLASS TEST** | |  |  |  |  |
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* 1. **CONCEPTS**

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| **Indicate whether the following statements are TRUE or FALSE. Write only True or False next to the question number 1.1.1 – 1.1.4 in work sheet.** | |
| 1.1.1 | False |
| 1.1.2 | True |
| 1.1.3 | True |
| 1.1.4 | False |

**1.2 COASTAL TRADERS**

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| **Calculate the following financial indicators for 31 October 2019** |
| * **Average creditors payment period**   ½✓ (192 000✓ + 288 000✓) x 365  1 335 000✓ 1  = 240 000 x 365  1 335 000 1  = 66 days**🗹** |
| * **Percentage operating profit on sales**   427 200✓ x 100  2 136 000✓ 1  = 20%**🗹** |
| * **Debt equity ratio**   408 000✓ : 1 020 000✓  0.4 : 1**🗹** |
| * **Solvency ratio**   948 000✓ + 672 000✓ : 408 000✓ + 240 000✓  1 620 000 : 648 000  2.5 : 1**🗹** |
| * **Percentage return on average partners’ equity**   270 000 ✓ x 100  ½✓ (1 020 000✓ + 780 000✓) 1  = 270 000 x 100  900 000 1  = 30%**🗹** |

**1.3 COMPARISON OF FINANCIAL INDICATORS OF TWO BUSINESSES**

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| **1.3.1 Mr Basil is of the opinion that LUNDI Traders has a better profitability and**  **operating efficiency. Quote TWO financial indicators with figures to**  **support Mr Basil’s opinion.** |
| * Percentage operating expenses on sales✓ is 12% ✓ compared to 20.8% * Percentage operating profit on sales✓ is 20.6% ✓ compared to 16.2% |

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| **1.3.2 Mr Basil feels that JIKA Traders has a better liquidity position. Do you**  **agree? Quote THREE relevant financial indicators and figures to support**  **your opinion.** |
| Opinion✓ indicator ✓✓✓ figure✓✓✓  No✓   * Lundi Traders has a better liquidity position * Current ratio ✓ of Lundi Traders is 2.1 : 1 whereas Jika Traders ‘ is 0.9 : 1✓ * Average debtors collection period✓ for Lundi Traders is 30 days whereas Jika Traders’ is 63 days✓ * Average creditors payment period✓ for Lundi Traders is 60 days whereas Jika Traders’ is 28 days. ✓ |

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| **1.3.3 Which business would you advise Mr Basil to invest in?**  **Quote one relevant financial indicator together with figures to support**  **your answer.** |
| Lundi Traders✓   * Percentage return on partners equity✓ for Lundi Traders is 21.4%✓ compared to Jika Traders which is only 12%✓ * The return on partners equity✓ of 21.4%✓ for Lundi Traders is higher than alternative investments, e.g. interest on fixed deposit of 8%.✓ |